

CollegeCounts 529 Fund Board Meeting
May 9, 2012
9:00 a.m.
MINUTES

Board Present:

Chair Young Boozer
Mr. Dennis Beavers
Mr. Chess Bedsole
Dr. Greg Fitch
Mr. Daniel Hughes, Vice Chair
Mr. Mychal Smith

Absent:

Dr. William Meehan
Mr. Ronald Stokes
Lt. Governor Kay Ivey
Chancellor

Others Present:

Ms. Glenda Allred, Deputy Treasurer
Ms. Daria Story, Assistant Treasurer
Ms. Brenda Emfinger, College Savings Programs Director
Mr. Jay Steinacher, Union Bank and Trust
Mr. William Shafferman, Union Bank and Trust
Mr. Trevor Jackson, Wilshire Associates
Mr. Mannik Dhillon, Wilshire Associates (by phone)
Mr. Jeremy Thiessen, PCA Consultants

Pursuant to written and public notice, the meeting of the Board of Directors of the CollegeCounts 529 Fund was held in the RSA Union Building, 6th Floor Conference Room on May 9, 2012.

Agenda Item 1.

The meeting was called to order by Chairman Young Boozer at 9:00 a.m. Chairman Boozer introduced Chad Wright who will be replacing College Savings Director Brenda Emfinger. He provided background information on Mr. Wright and expressed appreciation to Ms. Emfinger.

Agenda Item 2.

Chairman Boozer presented the minutes of the February 15, 2012 board meeting. A motion for approval was made by Mr. Beavers, seconded by Mr. Bedsole, with unanimous approval.

Agenda Item 3.A.

Chairman Boozer called on Mr. Steinacher for the quarterly program review. Mr. Steinacher began by stating that the first quarter of 2012 was a strong quarter in terms of contributions and rollovers. Total program contributions were \$36 million for the quarter. Alabama contributions were \$23.5 million representing an increase of 36.1% over 2011, a 404.2% increase over 2010 and a 497.1% over 2009. Rollover contribution activity remains strong. There were 533 rollovers in the advisor plan with the average rollover \$14,800. There were 218 rollovers in the direct plan with an average rollover of \$17,900.

The March 31, 2012, report is attached for reference and summarized as follows:

- For the quarter ended March 31, 2012, total program assets were \$858.8 million with new contributions of \$36.0 million, including \$23.5 million from Alabama residents. There were a total of 59,843 accounts. Alabama accounts increased by 1,493 to a total of 20,021.
- 66% of new Direct Plan accounts have been established online.
- The marketing and promotion efforts throughout the year continue to be statewide. Alabama counties with the largest number of accounts are Jefferson, Madison, Shelby, Mobile and Baldwin.
- Census Bureau statistics report 1,132,459 Alabama children under the age of 18. CollegeCounts has 20,021 Alabama accounts. The in-state "success rate" is 1.77%. The ongoing goal is to open 5,000 new Alabama owned accounts each year.
- 76.8% of qualified withdrawals went to the account owner, 9.6% to the account beneficiary and 13.6% directly to the school
- The Program offers solid investment diversification and choice. Investors and financial advisors have utilized the Age-Based Options with 66.3% of Direct assets and 71.4% of Advisor assets invested in the Age-Based Portfolios. The Program offers an Aggressive, Moderate, and Conservative Age-Based Option.
- The overall asset allocation of each plan (i.e., Age-Based, Target, and Individual Fund Portfolios) reflects solid diversification:

	<u>Direct Plan</u>	<u>Advisor Plan</u>
Cash	4.8%	4.6%
Fixed Income	29.5%	27.8%
Real Estate	1.9%	1.5%
Domestic Equity	48.4%	44.2%
International Equity	15.3%	21.8%

- The average age of account owners is 47 years with 75% of all account owners between the ages of 35 to 65.
- The average account size in the Direct Plan is \$11,304 and \$14,544 in the Advisor Plan.

Will Shafferman then provided information on marketing activities. He discussed grass roots calling efforts including the summer reading program, upcoming events, the efforts in Madison county with employees and payroll deduction, along with the continued focus of reaching out to all areas of the state.

Glenda Allred informed the Board that marketing activities discussed at the previous meeting were pulled back because of the adverse publicity related to the PACT program. She then discussed the distribution of marketing materials through the State Treasurer's Unclaimed Property Division and the May Facebook contest awarding \$529 in account contributions each week during the month and a grand prize of \$2,529.

Marketing materials from the first quarter were included in the Board booklet.

Agenda Item 3.B.

Wilshire associate Trevor Jackson conferenced Mr. Dhillon by phone for a review of fund and portfolio performance. The quarterly performance report was received as information and is attached for reference.

Mr. Jackson discussed the economy stating that the first quarter was positive for equities with fixed income being basically flat. He stated that there were positive economic numbers even though jobs and housing were mixed. Small cap outperformed large cap and growth did better than value. Active management did well for the quarter and the PIMCO Total Return fund rebounded nicely.

Mr. Jackson then discussed the Fidelity Advisor Fund, stating that Wilshire was not comfortable with the way the portfolio was managed because of the exposure to international equities. He further stated that mid cap equity funds were a difficult area to add value with active management. The T Rowe Price Balanced Fund had a good quarter and he stated that Wilshire was comfortable with the fund. The American Century Growth Fund had personnel issues but rebounded and things quieted somewhat. Performance in the Harbor Large Cap Value fund is coming back. Wilshire continues to maintain a positive conviction about the William Blair Small Cap Value Fund with the long term numbers in positive territory. Neuberger has been challenged in the near term but the long term performance is good. Lazard had stellar performance with good protection on the down side and large gains in the good times.

Mr. Jackson informed the Board that Wilshire was recommending replacement of the Fidelity Mid Cap Advisor plan because of performance and the lack of opportunity through active management in the asset class. He stated that they were recommending passive funds with a Vanguard fund for the direct sold and a Northern fund for the advisor. After discussion of the issues related to Fidelity, Mr. Hughes noted that this was the only Fidelity fund in the portfolio and that all marketing materials included the Fidelity logo. He further stated that the Fidelity name was well known and seemed to be an attractive offering in the program. He asked if other Fidelity funds were available to be included. Wilshire was asked to provide more detailed information to the Board when recommending portfolio changes, including a mapping of the difference the inclusion would have made in performance. After further discussion, a motion was made by Mr. Hughes to accept the recommendation of Wilshire with close monitoring in the interim for a targeted date of replacement of September 30, to allow for the search for a Fidelity fund that could be included in one of the portfolios. The motion was seconded by Mr. Bedsole with unanimous approval.

Agenda Item 3.C.

Chairman Boozer called on Jeremy Thiessen for the consultant's analysis. Mr. Thiessen began with a discussion of the funds on "watch" status. He noted that the Harbor Large Cap Value Fund in the Advisor Plan was improving but suggested that it remain on the "watch" list for an additional 6 months. The Fidelity Advisor Mid Cap II Fund, in both plans, was noted as being within a monitoring range which does not merit removal from "watch" status. The BlackRock Inflation Protected Bond Fund in the Advisor Plan was also discussed as improving to the acceptable range but recommended to continue on "watch" for an additional 9 to 12 months.

Mr. Thiessen then recommended the PIMCO Total Return Bond Fund be placed on "watch" status and closely monitored for the next 12 to 18 months. He explained that the criteria the Board had in place triggered the status and even though performance could be explained by a decision to avoid US Treasuries, the status was merited. A motion was made by Mr. Beavers

and seconded by Mr. Bedsole to place the PIMCO Fund on “watch” status. The motion was unanimously approved. The discussion memo provided by PCA is attached for reference.

Agenda Item 3. D.

Mr. Jackson then called the Board’s attention to information discussing asset allocation. He began by explaining that their process included the determination of an asset allocation, market research, portfolio construction and ongoing monitoring. He further explained that Wilshire’s advantage in the asset allocation process was their Trust Universe Comparison System Universe, a proprietary database of the allocation decisions of some of the largest institutions in the world which represented \$2.8 trillion in assets. He stated that overall, a number of institutional clients increased their allocation to Non- US Equities as well as utilizing more comprehensive less-correlated asset class line-up. He stated that most of the portfolios had horizons of 40 years so the review was tweaked for the 10 to 15 year horizon of the CollegeCounts portfolios. He stated that in the referenced portfolios, 45% of the investments were United States allocations and 55% were from outside the United States which led them to recommend an increase in the Non US asset classes for the purpose of diversification. The following recommendation was offered for consideration:

- Increase the overall international equity allocation in all age-based portfolios at higher risk profiles
- Increase the emerging markets allocation relative to the overall non-US allocation
- Add active mutual funds in key asset classes that are less efficient and can highlight a manager’s skill to include fixed income, small cap equity, and non-US equity.
- The active mutual funds recommended are the PIMCO Total Return, DFA US Small Cap, and Dodge & Cox International Stock
- No addition of a FDIC-insured option

An in depth discussion ensued where board members expressed concern over the lack of information on fees and performance of the recommended funds. They also discussed the need for careful consideration of such broad changes and communicating with investors in advance of changes. It was the consensus of the Board that the information provided would be carefully reviewed for additional discussion at the August meeting.

Mr. Jackson then discussed with the Board further diversification in the Advisor plan to include the following:

- Increase the overall international equity allocation in all age-based portfolios at higher risk profiles
- Increase the emerging markets allocation relative to the overall non- US allocation
- Add a further level of portfolio diversification and overall enhancement with the addition of a few key asset classes to include international bonds, international small cap equities, high yield, and commodities.
- Replace the current domestic REIT option with a global REIT option
- No addition of a FDIC-insured option

Mr. Jackson asked if the Board would approve the additional classes and it was the consensus of the Board that Wilshire could bring recommended funds within the classes for discussion at the August meeting.

Agenda Item 4.

Treasurer Boozer called the Board’s attention to a proposed Agreement between the CollegeCounts Board and the Alabama Higher Education Loan Corporation (AHELC) to receive the funds from AHELC that had been discussed at the previous meeting. He presented a

Resolution authorizing the Chairman to sign the Agreement to receive the funds into the ACES Opportunity Enhancement fund. A motion was made by Mr. Beavers, seconded by Mr. Smith for approval of the Resolution. The motion passed unanimously and the resolution is attached for reference.

Treasurer Boozer then called on Ms. Allred for a report on the scholarship program for the Opportunity Enhancement Fund. Ms. Allred provided information on the five firms that responded to the RFP for scholarship management services. She then discussed the process used by staff for evaluation of the responses which led to the two firms selected for interviews.

Eric Wilner from International Scholarship and Tuition Services was introduced. Mr. Wilner provided information on the firm, the process and services offered. The Board asked questions and reviewed the information provided.

Dina Gillespy from Scholarship Management Services was then introduced and presented information on her firm. The Board asked questions and reviewed the information provided.

Treasurer Boozer then presented a Resolution for consideration. A motion was made by Mr. Hughes to approve the Resolution with the selection of International Scholarship and Tuition Services for scholarship management. The motion was seconded by Mr. Smith with unanimous approval and the Resolution is attached for reference.

Agenda Item 4. B. and C.

Chairman Boozer called the Board's attention to the AKF Market Report and financial information provided.

There being no further business, the meeting adjourned at 3:00 p.m.

Chad Wright, Recording Secretary

Young Boozer, Chair